

ISSUE

Under the circumstances described below, is the sale of exclusive broadcasting rights to athletic events by an organization exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code unrelated trade or business within the meaning of section 513?

FACTS

The organization was created as a national governing body for amateur athletics to promote systematic physical exercise and education, to foster interest in amateur sports among the public at large, and to encourage widespread public participation in athletics and recreational sports.

The organization sponsors, supervises, and regulates programs in a number of different amateur sports. It also arranges for and coordinates open competition for amateur athletes at the local, state, regional, and national levels.

The organization receives income each year from the sale of exclusive television and radio broadcasting rights to an independent producer, who contracts with a commercial network to broadcast many of the athletic events sponsored, supervised, and regulated by the organization.

LAW AND ANALYSIS

Section 513(a) of the Code defines the term 'unrelated trade or business' as any trade or business the conduct of which is not substantially related (aside from the need of an organization for income or funds or the use it makes of the profits derived) to the exercise or performance by an organization of its exempt function.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that a trade or business is 'substantially related' only if the production or distribution of the goods or the performance of the service from which the gross income is derived contributes importantly to the accomplishment of the purposes for which exemption is granted.

The broadcasting of the organization's sponsored, supervised, and regulated athletic events promotes the various amateur sports, fosters widespread public interest in the benefits of its nationwide amateur athletic program, and encourages public participation. Therefore, the organization's sale of broadcasting rights and the resultant broadcasting of its athletic events contributes importantly to the accomplishment of its exempt purposes.

HOLDING

The sale of exclusive broadcasting rights, under the circumstances described above, is substantially related to the purpose constituting the basis for the organization's exemption and, therefore, is not unrelated trade or business within the meaning of section 513 of the Code.

See Rev. Rul. 80-294, page 9, and Rev. Rul. 80-296, this page, this Bulletin.